FDIC

Federal Deposit Insurance Corporation

550 17th Street, NW, Washington, D.C. 20429-9990

Financial Institution Letter

FIL-79-2016

December 19, 2016

NEW ACCOUNTING STANDARD ON CREDIT LOSSES: FREQUENTLY ASKED QUESTIONS

Summary: The federal financial institution regulatory agencies are issuing the attached *Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses* to assist institutions and examiners. This new standard, published by the Financial Accounting Standards Board (FASB) in June 2016, introduces the current expected credit losses methodology (CECL) for estimating allowances for credit losses. The Frequently Asked Questions (FAQs) focus on the application of CECL and related supervisory expectations. The issuance of the FAQs is part of the agencies' efforts to support institutions as they prepare to implement CECL. The agencies plan to update the FAQs periodically.

Statement of Applicability to Institutions under $1 Billion in Total Assets: This Financial Institution Letter applies to all FDIC-supervised banks and savings associations, including community institutions.

Distribution:
FDIC-Supervised Banks (Commercial and Savings) and FDIC-Supervised Savings Associations

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Credit Officer

Related Topics:
FIL-39-2016, June 17, 2016, Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses

Attachment:
Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses

Contact:
John Rieger, Deputy Chief Accountant,
202-898-3602, jrieger@fdic.gov:
Christine Bouvier, Assistant Chief Accountant,
202-898-7289, cbouvier@fdic.gov;
Kenneth Johnson, Examination Specialist,
678-916-2197, kjohnson@fdic.gov;

Note:
FDIC Financial Institution Letters (FILs) may be accessed from the FDIC's website at https://www.fdic.gov/news/news/financial/2016/.

To receive FILs electronically, please visit https://www.fdic.gov/about/subscriptions/fil.html.

Paper copies may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (877-275-3342 or 703-562-2200).

Highlights:

- CECL applies to all financial assets carried at amortized cost, including loans held for investment and held-to-maturity debt securities, and certain off-balance-sheet credit exposures such as loan commitments and standby letters of credit. Although CECL does not apply to available-for-sale debt securities, the new accounting standard modifies the existing accounting for impairment on such securities.

- The FAQs address such topics as changes the new accounting standard makes to existing U.S. generally accepted accounting principles, the standard's effective dates, the application of the standard upon initial adoption, acceptable allowance estimation methods under CECL, and portfolio segmentation for credit loss estimation on a collective basis.

- The FAQs reiterate that CECL is scalable to institutions of all sizes; community institutions are not expected to need to adopt complex modeling techniques to implement the new accounting standard; and institutions are not required to engage third-party service providers to assist management in estimating credit loss allowances under CECL.

- Institutions are encouraged to plan and prepare for the transition to and implementation of the new accounting standard, including its potential impact on regulatory capital. The FAQs provide examples of initial implementation activities. The agencies expect institutions to make good faith efforts to implement the new accounting standard in a sound and reasonable manner.

- Institutions with specific questions about the new accounting standard and the FAQs may submit them by e-mail to CECL@fdic.gov.